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**"Acquisition Reform and Re-engineered Logistics —
More Bang for the Buck"**

**Address of
The Under Secretary of Defense for Acquisition and Technology
Dr. Paul G. Kaminski
to the
AFA Focus on Defense Symposium
Ogden ALC, Hill AFB, Utah**

June 19, 1996

Over a century ago, the Civil War hero and Arctic explorer General A.W. Greely came to Utah to put down the telegraph lines that connected this state and the Far West to the rest of the United States. He called this area "magnificent beyond description" and today, it's still a beautiful place to visit—I'm glad to be here.

I am also glad to be here today because the Ogden Air Logistics Center is such an appropriate setting for what I want to talk about: a Department-wide perspective on efforts to reform our acquisition system and, more importantly, on the need to reengineer our logistics system.

ACQUISITION REFORM

Turning first to the topic of acquisition reform—it has been my sense that it is easy to talk about why we need meaningful reform of the system; harder to talk about how; and even harder to do. The Congress and the Department of Defense have been talking about acquisition reform for a very long time. More importantly, we are together now doing something about implementing real reforms.

We are at a point in our acquisition reform program that is not too much different than the situation faced by Winston Churchill during World War II when the US entered the war. He observed that "This is not the end, or even the beginning of the end, but it is, I believe, the end of the beginning."

When you stop to think about it, this is exactly where we are in our program of acquisition reform and the reason why I selected "The End of the Beginning" as the theme for the "Acquisition Reform Day" recently observed about three weeks ago on May 31st by all Department of Defense acquisition activities around the world.

It is important to note that "Acquisition Reform Day" was not a bad news story—it was a good news story. I felt a "stand-down" like this was necessary because

we now have enough reforms under our belts that it was time to share with the entire DOD acquisition community our many successes and accomplishments.

Perhaps the most successful aspect of the day was the effort made to promote horizontal communications among peers for sharing lessons learned, best practices, and initiatives under way. Many people did not realize the progress made by their peers. Based upon all the preliminary feedback received so far, it was a very successful day. The plan is to give the field activities an opportunity, over the next 60 days, to provide feedback up the chain of command on what's working, what's not, and what needs improvement. Lasting change will only come about with ownership in the field.

The Department has begun to make substantial progress in improving the way it procures equipment and services. Our success is real and visible. Many programs are experiencing cost avoidances and savings in the hundreds of millions of dollars—a few such as C-17, JDAM and LPD-17 in the billions of dollars. We are stripping away the onerous non-value added documentation and procedures and now have a foundation in place to move to 21st century business practices.

For example, here at the Ogden Air Logistics Center, I understand that General Condon has established a "Request for Proposal Support Office" within the center's contracting directorate. In the first seven months of operation, this office has facilitated over 39 programs with a total combined value of \$155 million and achieved the following results: page count of the average request for proposal was cut from 112 pages to 57 pages or about 49 percent; the page count of the average statement of work was reduced 92 percent; the average number of Mil Specs and Standards went down 96 percent; and the average number of deliverables on the contract data requirements lists went down 71 percent.

I am very proud of your accomplishments thus far in acquisition reform. The energy, dedication, and commitment that everyone in the Department has brought to acquisition reform is a real tribute to the professionalism of our acquisition community. It also shows what we can do when we work together as a team dedicated to a common goal.

Indeed, one of the key factors in our success has been our ability to work together in teams. Process Action Teams have been the foundation of our efforts. Our PATs have worked as integrated teams representing important interests across the Department and industry to develop solutions that aren't just smart but are also achievable.

We have teamed with the Congress to enact landmark statutory reforms. With the passage of the Federal Acquisition Streamlining Act of 1994, the Federal Acquisition Reform Act of 1996, and the Information Technology Act of 1996, the Department has

been able to take three huge steps toward becoming a world-class buyer. The Department is working with the Office of Federal Procurement Policy to fully implement these groundbreaking statutes.

Now that we have an institutional base in place, we are beginning to see the benefits of acquisition reforms. The evidence is still mostly anecdotal – but we are seeing savings on the major programs already discussed by Art Money and John Douglass. We're also seeing savings on thousands of small purchases of items like T-shirts and socks. By scrapping the military "build to" specification for an item like standard issue T-shirts, the Defense Logistics Agency is now able to buy brand name commercial undershirts for base-level military clothing sales stores – offering superior quality at more than a 10 percent discount.

The Congress and the Department have made substantial progress in implementing real procurement reform – and we are beginning to reap the benefits. But there is still a lot more to do. From a legislative viewpoint, we need to provide additional Title X statutory waivers for the defense acquisition pilot programs – eventually we need to change the statutes and make the reforms permanent. We need relief from provisions restricting defense contractors from supporting operational tests. We need a Dual Use Applications Program – one that is whole and viable – to help the Department leverage commercial technologies.

The reprogramming thresholds have not changed in over 20 years – we need to restore the original balance by doubling the \$4 million and \$10 million thresholds for reprogrammings within Research, Development, Technology and Evaluation and procurement accounts respectively. And we need additional flexibility to manage our financial affairs – why not give program managers some relief from the existing "color of money" restrictions between appropriations?

To proceed further, it is absolutely essential that I and the Service acquisition executives – Art Money, John Douglass and Gil Decker – continue to receive your feedback and good ideas on what's working, what's not, and what needs improvement. We also need to know what barriers to effective implementation still exist and what your recommendations are to overcome these barriers.

RE-ENGINEERED LOGISTICS

Now let me shift gears a little and talk about the need for a re-engineered logistics system. My growing interest in a re-engineered logistics process stems from two observations. The first is that there is a lot of "gold to be mined" here. The second is that for our revolution in military affairs to proceed – we're going to need a new, compatible logistics support concept.

Let's talk about the "bag of gold" that is out there. The President's fiscal year 1997 budget request has a total of \$244 billion for the DoD topline. Of that, just under \$74 billion or about 30 percent of the budget request, is for the investment accounts -- RDT&E and Procurement to be more specific. When you think about it, our acquisition reform efforts are targeted towards getting "more bang for the buck" for this 30 percent piece of the DoD topline. On the other hand, operations and support costs -- the O&M and MILPERS accounts -- total a little under \$159 billion or about 65 percent of the DoD topline. Improvements in our logistics system will directly leverage this much larger piece of the budget.

Perhaps a more important reason for re-engineering our logistics process, though, is the need to effectively support the new war fighting concepts for the 21st century. Our forces are being designed to achieve dominant battlefield awareness and combat superiority through the deployment of fully integrated intelligence systems and technologically superior weapons systems.

You will see a shift in emphasis away from delivery platforms -- ships, aircraft, and tanks -- and towards enhancing those platforms with off board information and highly lethal, extremely accurate weapons. We received an inkling of what combat will look like in the 21st century during Desert Storm and more recently in our support of NATO action in Bosnia.

In DESERT STORM, only two percent of all weapons expended during the air war were precision guided munitions, or PGMs. In Bosnia, they accounted for over 90 percent of all ordnance expended by U.S. forces during Operation DELIBERATE FORCE. The bomb damage assessment photographs in Bosnia bear no resemblance to photos of the past where the target, often undamaged, is surrounded by craters. The photos from Bosnia usually showed one crater where the target used to be, with virtually no collateral damage.

We are moving closer to a situation known as "one target, one weapon." It was actually more than one--but less than two--weapons per target in Operation DELIBERATE FORCE. This has been the promise for the past 20 years, now it is becoming a reality. Our weapons focus now is to preserve accuracy while reducing cost; increasing standoff range; and providing all-weather capability. These are the major imperatives behind our development of systems like the all-weather Joint Direct Attack Munition (JDAM), the Joint Standoff Weapon (JSOW) and the Joint Advanced Standoff Strike Missile (JASSM).

A chess analogy is useful for explaining what this means for the changing nature of warfare. Today, precision weapons have now made it possible to capture any piece on any square of the chessboard with no collateral damage to adjacent squares. Given this one target one weapon capability, commanders now need to know where all one's

forces are and where all the targets are on a 100 x 200 kilometer battlefield . This is analogous to seeing all the pieces on the chessboard – something we take for granted when playing chess. Imagine how fast you would win the game if you could see all the pieces on the board, but your opponent could see only his major pieces plus a few of your pawns. This is what it means to have “Dominant Battlefield Awareness.”

We need a complementary vision for the logistics concepts that will support the style of warfare envisioned in the revolution in military affairs. As I said, Dominant Battlefield Awareness means knowing everything going on in a battlefield – it is more than just knowing the static locations of forces. Commanders will need to know the combat readiness status or “state vector” for each force element. This includes knowing the logistics posture of friendly and enemy forces as well as having a prediction of the resupply needs of each force element. To complete the logistics picture, available support and the need for future support must be propagated from each force element in the field through the whole support system. This is “total asset visibility.” There is a strong linkage between dominant battlefield awareness and total asset visibility -- without the latter, the former is seriously degraded.

While dominant battlefield awareness is critical, it is not the whole story. It is a necessary condition, but not a sufficient condition to prevail on the 21st century battlefield. What one really needs is something I call “dominant battle cycle time.” This is the ability to turn inside an adversary; to act before the adversary can act. A more stressing, but highly desirable objective is to act before the adversary’s battlefield awareness system can see you act. To achieve a dominant battle cycle time capability, one must also possess rapid planning tools, strong command and control systems, and superior mobility. And finally, the logistics system must be tailored to support this vision. It means moving to a more integrated inventory-transportation concept.

A major system integration effort is needed to implement this logistics concept. It is my sense that most of the enabling technologies have been developed. Some of the information technologies that could immediately be brought to bear include: bar code tagging technology; RF smart response tags; relational data base systems; miniature global positioning system receivers and position reporting transmitters; satellite and fiber command & control communications links; and predictive planning tools.

The next steps involve leadership to better define the somewhat misty vision I have just described and to engage the principal stakeholders, the warfighters, logisticians and the supporting industrial base. We are at a unique time where there is a confluence of several events to make this happen -- strong and able Joint Logistics Commanders; demand pull for affordable logistics from the warfighters; a developed technology base; and a lean industry that is ready to engage. We really do have a unique “alignment of the stars” to make this grand vision happen.

The Department's logistics system is complex and fundamentally different for each service. At the risk of greatly oversimplifying the true situation, I would characterize the DoD logistics system not as a "just-in-time" system, but as a "just in case" system. It has lots of unneeded inventory. Between 1989 and 1999 we plan to reduce our stock levels from about \$107 billion to about \$55 billion -- today we are slightly below \$70 billion. And so, this is a big deal when the inventory value is on the order of \$70 billion. Not only are we spending to buy what is likely unneeded inventory. But we also must pay to dispose of it as well.

There are other indirect costs associated with excess inventory. For example, in wartime, we would need to divert precious airlift and sealift resources to transport inventory when we do not need it. And something I do not think is well understood, we also would need to divert combat power to defend storage sites for excess inventory in theater. As an adversary's dominant battlefield awareness capabilities grow, large undistributed inventory will be at risk.

Our "just in case" system has evolved over the years in response to a cumbersome acquisition system, little or no in-transit asset visibility, and lack of a fast and responsive transportation system. This system is a stark contrast to the "just in time" material management systems being implemented by commercial enterprises. Boeing and Caterpillar are two companies that substitute fast, cheap transport for costly inventory. As a result, they have a world wide guarantee of parts delivery, in most cases, of 24 hours, and in some cases no charge if the delivery timeline exceeds 48 hours. Federal Express has implemented the kind of transport system that allows other companies to reduce their inventories as well.

The Air Force is taking the lead in adopting a DoD model of the private sector substitution of fast transportation for logistics infrastructure. Known as "lean logistics," the Air Force program uses improved transportation to achieve a new emphasis on user requirements as the focus of the logistics system. Fast transportation enables the Air Force to replace the traditional caches of "just in case" inventory scattered throughout the supply system with a "just-in-time" approach to materiel acquisition and delivery -- one geared to satisfying actual customer requirements when the requirements arise.

The end result of this "lean logistics" approach is consolidation of wholesale inventories, a drastic reduction of base level inventory, and a new focus on customer mission requirements. The Air Force is expecting \$4 billion in savings. This is not a hollow forecast -- real dollars have been taken out of the budget. As this approach is adopted throughout the Department, its focus on substituting fast transportation for multiple levels of substantial amounts of inventory will allow us to reach the ultimate goal of lean logistics--better, faster, cheaper.

Those of you in the audience who served in country during the Vietnam conflict surely remember the seemingly endless streams of unidentified, often unnecessary, and frequently lost material that flowed into South Vietnam. In the two decades that followed that war, not much has changed in the service's ability to know precisely what their resources consisted of, where they were, and what their operational status was.

This shortcoming was clearly demonstrated during operation Desert Storm, when half of the 40,000 bulk containers shipped into the theater had to be opened in order to identify their contents. We sent twice as much materiel to the Persian gulf as we needed, we didn't know where half of it was at any given moment in time and most of it failed to contribute in any way to our success on the battlefield.

While Desert Storm combat gave us a glimpse of the nature of tomorrow's armed conflict -- it was strictly a cold war logistics effort that substituted brute force and the deployment of massive quantities of materiel for a well managed logistics support effort. We are doing better in Bosnia -- thanks primarily to the Army's efforts to implement a total asset visibility system. The goal of total asset visibility is to give us real time information regarding the quantity, location, and condition of virtually all DoD assets anywhere in the logistics system at any time. And if we recognize the coalition nature of present and future conflicts, then it becomes obvious that there is a big payoff associated with integration of our total asset visibility system with that of our allies.

Neither the "just in case" nor "the just in time" system are right for the Defense Department. A tailored approach is needed. Right now, the pendulum is too close to "just in case." It needs to swing more to a "just in time" position. But 'just in time' in warfare means that the wartime transportation system must work. This means we need to exercise the system in peacetime. It means we need to establish standards and metrics, and then, to routinely demonstrate our ability to achieve or exceed the levels needed for wartime support.

SUMMARY

In summary, we are at the "end of the beginning" in our program of acquisition reforms. The stars are all aligned to make this happen. There is demand pull from the warfighters. There is an exceptionally able team in the Service Acquisition Executives. There is legislative and regulatory relief on the books. And we're beginning to see some very positive results -- on major programs and small purchases. But we still have a long way to go to change our culture and create lasting reforms.

As much payoff as there is in acquisition reform, there is considerably more in the reform of our logistics and support system. We need to re-engineer our logistics system for two reasons -- the potential savings is large and our logistics support concept

will need to keep pace with the revolution in military affairs. Specifically, we will need to use information technologies and fast transportation to reduce inventories and shift from a "just-in-case" system to a more "just-in-time-like" system.

Thanks to many of you in the audience, we are well postured to meet the challenges of the 21st century. You can be assured of the top-down commitment from the Secretary of Defense, from myself, from Assistant Secretaries Money, Douglass and Decker.

Thank you all.